



Ontario and its Finances:

a brief introduction



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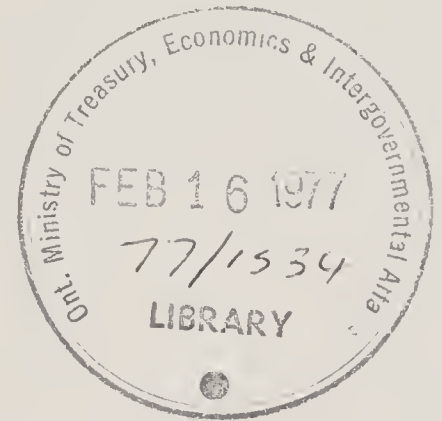
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Ontario and its finances

- The Ontario economy in perspective
- Fiscal Federalism in Canada
- An overview of Ontario's finances
- The structure of Ontario public sector debt
- Statistical appendix



Ontario

Ministry of Treasury
Economics and
Intergovernmental
Affairs

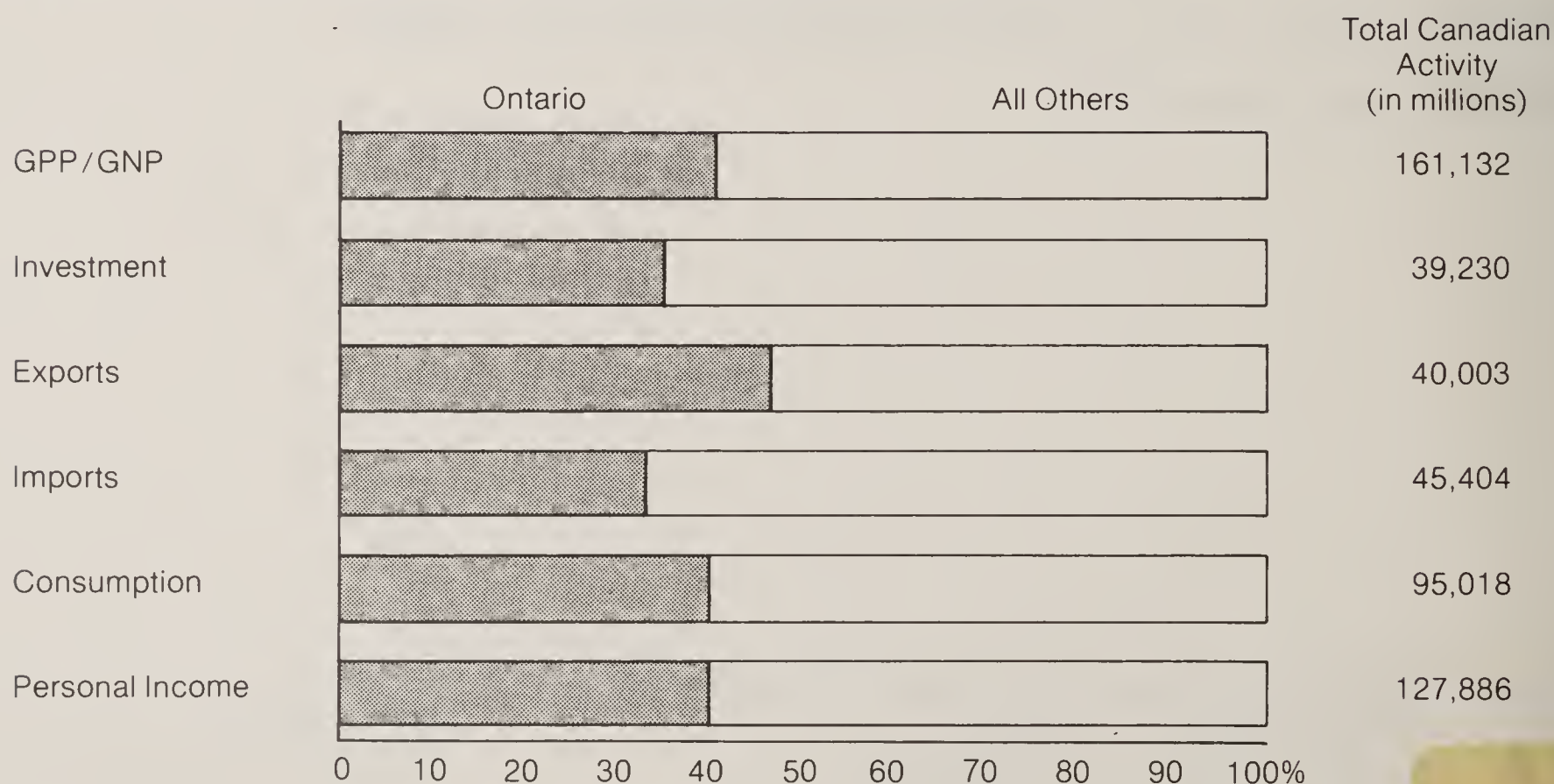
The Honourable W. Darcy McKeough
minister
A. Rendall Dick
deputy minister

Finance
Management
Branch

The Ontario economy

		1975 (\$ billion)	1976	75/74 (per cent)	76/75
Gross Provincial Product	(\$ billion)	\$ 65.2	\$ 72.7	8.5%	14.9%
GPP in 1971 Dollars	(\$ billion)	43.5	45.9	-2.0	5.4
Personal Income	(\$ billion)	51.2	58.2	13.8	13.6
Consumer Price Index	(1971 = 100)	138	150	10.8	8.0
Retail Sales	(\$ billion)	18.9	21.2	14.0	12.1
Housing Starts	(1,000 units)	80.0	82.0	-6.4	2.5
Exports	(\$ billion)	18.6	21.2	4.8	13.9
Imports	(\$ billion)	14.9	16.2	11.8	8.6
Population	(million)	8.2	8.3	1.6	1.5
Labour Force	(million)	3.9	4.0	3.9	2.6
Employment	(million)	3.6	3.7	1.8	2.6
Unemployment Rate	(per cent)	6.3	6.4	-	-

Percentage of Canadian economic activity originating in Ontario—1975⁽¹⁾



(1) Preliminary

Source: Statistics Canada; Ontario Ministry of Treasury, Economics and Intergovernmental Affairs.

The Ontario Economy in Perspective

Endowed with rich natural resources and favoured by proximity to the major markets of North America, Ontario has grown to become one of the leading industrial and commercial manufacturing areas of the world.

Although the Province comprises only about 11% of Canada's area, Ontario's 8.3 million residents make up 36% of the country's population and account for more than 40% of economic activity. Personal income per capita, \$6,224 in 1975, is the highest in Canada, about 11% above the national average.

More than a third of Canada's manufacturing establishments are located in the Province. Nearly half of the labour force in Canadian manufacturing work in Ontario, and they produce more than half of Canada's total estimated value of manufacturing shipments. The Province has been Canada's leading metallic mineral producer for fifty years, is the world's leading producer of nickel, and possesses the world's largest known reserves of uranium. Ontario is Canada's leading agricultural producer.

Structure of the economy

The economic structure of Ontario displays the usual characteristics of a mature industrial economy. As the Chart illustrates, Ontario's secondary manufacturing sector tends to be somewhat larger than that of Canada as a whole or the United States, while its service sector is correspondingly smaller.

Manufacturing is the largest single industrial group in Ontario; manufacturing shipments originating in Ontario accounted for 50.3% of the national total in 1975. Over 90% of Canadian motor vehicle production takes place in the Province, as does

about 80% of iron and steel output. Ontario industry accounts for approximately 70% of total Canadian shipments in the electrical products and machinery industries and about 60% in the chemical and chemical products, primary metals, and metal fabricating industries.

The value of mineral production in 1975 was \$2.3 billion, 17.5% of Canada's mineral output, or 30.8% if fuels are excluded. Production in real terms has grown at an average annual rate of 3.1% between 1970 and 1974. Metals, primarily nickel, copper, zinc, and iron ore, dominate mineral output. Ontario is also a major uranium producer, accounting for 86% of Canada's output in 1975.

Ontario's farm cash receipts in 1975 represented 25.9% of the nation's total. Crops are highly diversified, the most important revenue producing items being tobacco, corn, other vegetables, and livestock products.

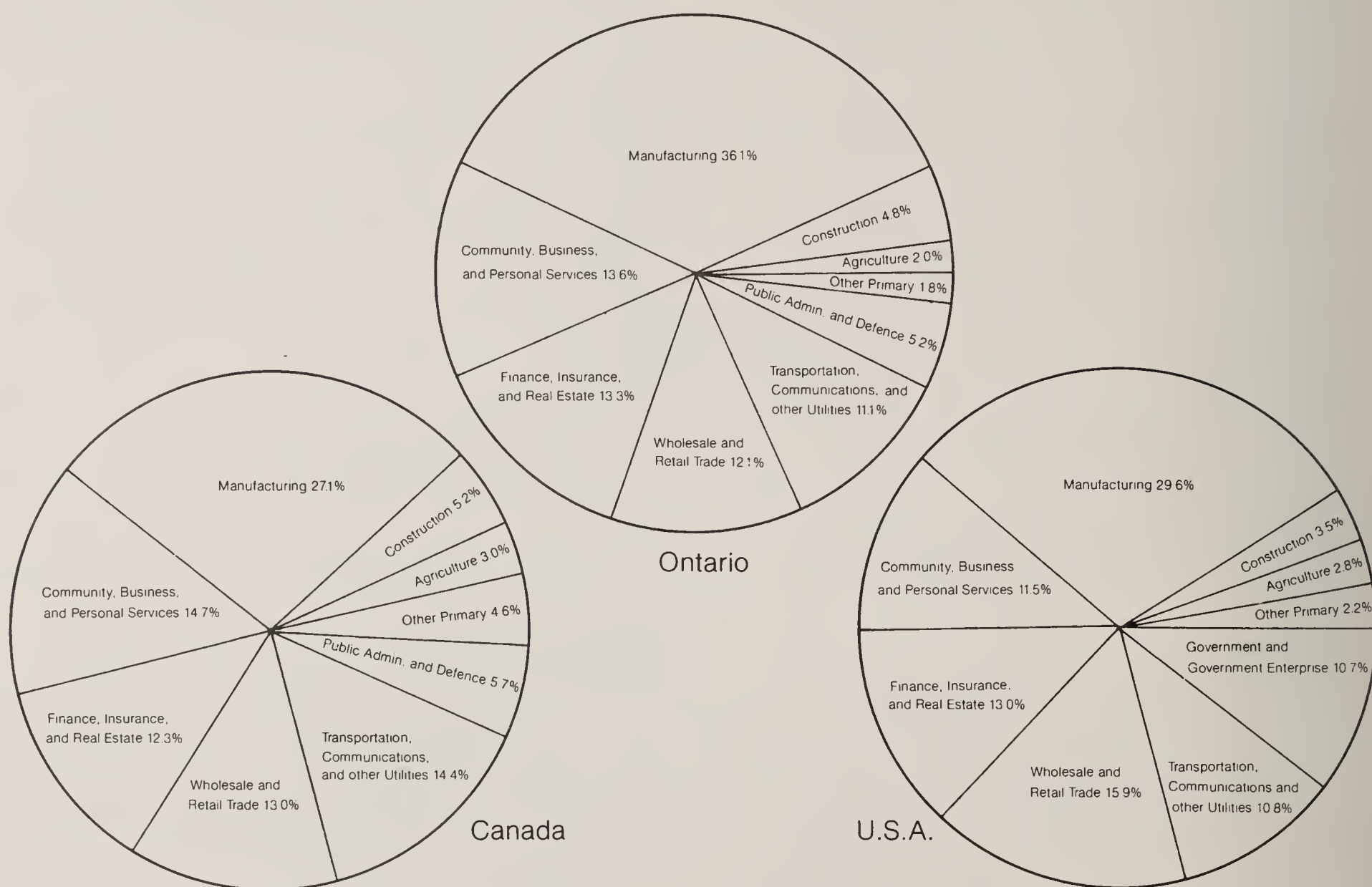
From 1971 to 1975, the Ontario labour force of 3.9 million grew at an annual rate of 4.0%, slightly higher than the 3.8% recorded for all of Canada. The service sector, which has been a major source of employment growth, accounts for 64.4%, while manufacturing and construction take up 30.9%.

For the 1971-75 period, the unemployment rate averaged 5.1%, one percentage point below the national average. Unemployment in Ontario averaged 6.3% in 1975 but, reflecting the Canadian economic recovery, had declined to 5.8% by August, 1976.

The Ontario economy in 1975 and 1976

Gross Provincial Product (GPP) reached \$65.2 billion in 1975. Reflecting generally weak economic conditions across North America, GPP rose by only

Percentage Distribution of Domestic Product by Industry of Origin—1973 (1961 Prices)



United States data on Government and Government Enterprises includes data on enterprises owned by government, while the Canadian data on Public Administration and Defence does not include data on enterprises which may be owned by government, but

which fall within other industrial classifications (e.g. electric utilities).

Sources: Statistics Canada; Ontario Ministry of Treasury, Economics and Intergovernmental Affairs; U.S. Department of Commerce.

1.1% in real terms, well below the 4.1% average annual rate recorded over the 1971-75 period. Price performance was disappointing, as both the GNE price deflator and the Consumer Price Index rose by 10.8%.

The recession in Canada has been less severe than in the United States; the recovery is expected to be less dramatic. The spectacular 11% first quarter growth in Canadian GNP slowed to zero growth in the second quarter. Real growth for the year will probably be slightly less than 5%. Aided by the anti-inflation program and weakness in food prices, inflation has declined to the 6% range in Canada. However, an expected reversal of food prices and higher energy prices may leave the increase for the year at about 8%.

Ontario's GPP is projected to grow by 5.4% in 1976, somewhat higher than for Canada as a whole. Housing and manufacturing, particularly in the auto and export related sectors, have led the Ontario recovery since late 1975. Although unemployment fell to 5.8% in August, a slight weakening in the second half of the year will probably leave the average unemployment rate for the year at 6.4%, about the same as in 1975.

Introduction

Like its American counterpart, the Canadian constitution provides for a federal system of government, with sovereign powers allocated between Ottawa and the provinces. The original intention was that the Canadian federation should be more centralized than the American, but the historical result has been just the opposite. To explain this, one has to look at the different responses that were made once changing social and economic conditions had rendered obsolete the constitutional equilibrium between the taxing and spending powers of each level of government. In the U.S., this problem of fiscal imbalance was tackled largely on the expenditure side, with Washington taking on an ever-increasing share of the responsibilities. In Canada, it has been tackled on the revenue side, through the development of extensive tax-sharing, cost-sharing, and equalization arrangements. The following sections highlight certain aspects of the Canadian federal system.

An Overview of the Canadian Public Sector

Table I presents a capsule look at the relative size of governments in Canada and the substantial degree of intergovernmental transfer payments. In 1975, the federal government received 49.4% of total revenues and accounted for 41.0% of total expenditures. The provinces, along with their local governments and hospitals, collected 46.2% of total revenues, and accounted for 57.8% of total spending. The small residuals are accounted for by the Canada and Quebec Pension Plans. It should be noted that in Canada there are very few special purpose financial bodies such as water and sewage districts or highway toll authorities; these, as well as school

*Prepared by Intergovernmental Finance and Grants Policy Branch, Ministry of Treasury, Economics and Intergovernmental Affairs.

boards, are included as part of the local government sector.

Turning to the transfer payments, we see that the federal government transferred \$7.5 billion to the provinces, or 23.9% of its own account revenues. For the provinces collectively, these transfers amounted to 25% of their total revenues, but in the smaller provinces this percentage is considerably larger. The provinces, in turn, transferred \$11.2 billion, or 38% of their total revenues. Almost half of municipal and school board revenues, and virtually all hospital revenues, come in the form of provincial transfer payments.

The Table shows total public sector spending of \$67.4 billion, and total revenues of \$63.4 billion for an over-all deficit of \$4 billion. However, 1975 was not a particularly representative year for government activity in Canada. Faced with a serious recession, the federal government and several provinces budgeted for strongly expansionary fiscal policy stances, and this resulted in a deterioration of the \$2 billion government sector surplus recorded in 1974. The deficit coming out of 1975 was halved in the first quarter of 1976, and preliminary indications are that the government sector will return to its traditional surplus by year-end.

The share of government in the Canadian economy has grown slowly over the years and now stands at about 40%. This figure is somewhat misleading, however, as a very large proportion of government budgets are transfer payments to individuals and groups. These payments tend to redistribute incomes in the economy, but do not increase the government sector's claim on the output of goods and services. Government spending on goods and

services, including national defence and capital formation, took up 24.3% of G.N.P. in 1975.

Federal Provincial Fiscal Arrangements

Notwithstanding the spirited nature of federal-provincial debates, history will probably describe the Canadian experience as one of co-operative federalism. The obligation of Ottawa to redress the basic fiscal imbalance in the federation has seldom been in dispute; rather, the debate had focussed on the form and timing of the federal fiscal transfers. The current set of federal provincial fiscal arrangements is best described under four headings: tax sharing, unconditional grants, conditional grants, and the revenue guarantee.

Tax Collection Agreements

The federal government has undertaken, on certain conditions, to collect both personal and corporate income taxes for the provinces. To be eligible, the provinces must accept the same base and exemption structures as in the federal legislation, and express their tax as a percentage of federal tax. The advantage of this is that it provides for a relatively uniform national tax system. Nine provinces participate in the personal income tax collection agreements, and eight in the corporate tax agreements. Provincial income tax rates range from 26 to 42.5% of federal tax; Ontario's current rate is 30.5%. Provincial corporation tax rates range from 11 to 15%. Although Ontario is not a party to the corporation tax agreements, its tax structure is quite similar to the federal one, with a basic rate of 12% of taxable income.

Over the years, the federal government has "abated" its own taxes to make way for provincial increases. The "standard" provincial occupancy of

Table I

The Public Sector in Canada—1975 (\$ millions)

	Federal	Provincial	Local	Hospitals	CPP, QPP	Total
Revenue from own sources	\$31,316	\$21,977	\$ 7,088	\$ 205	\$ 2,772	\$63,358
Add Transfers From:						
Federal	—	7,500	132	—	—	7,632
Provincial	—	—	6,477	4,700	—	11,177
Local	—	45	—	20	—	65
Total Revenue	\$31,316	\$29,522	\$13,697	\$4,925	\$ 2,772	\$82,232
Expenditures for own purposes	27,646	19,830	14,159	4,989	773	67,397
Add Transfers To:						
Provincial	7,500	—	45	—	—	7,545
Local	132	6,477	—	—	—	6,609
Hospitals	—	4,700	20	—	—	4,720
Total Expenditure	\$35,278	\$31,007	\$14,224	\$4,989	\$ 773	\$86,271
Surplus (+) or Deficit (—)						
1975	— 3,962	— 1,485	— 527	— 64	+ 1,999	— 4,039
1974	+ 593	+ 410	— 933	+ 82	+ 1,776	+ 1,928
'Own Purposes' Percentages						
Revenue	49.4	34.7	11.2	0.3	4.4	100.0
Expenditure	41.0	29.4	21.0	7.4	1.1	99.9

Source: Statistics Canada, **National Income and Expenditure Accounts**, August, 1976.

the personal income tax field now stands at 23.4%, and of the corporation income tax field at 20%. (Illustration: if federal tax were \$100, Ontario tax would be \$30.5, and Ontario would receive 30.5 out of 130.5, or 23.4% of the total).

The sharing of tax fields is not included as “transfers” in Table I.

Unconditional Transfers

Unconditional transfers are comprised of revenue equalization payments, revenue stabilization payments, and a number of minor statutory payments.

The equalization program is designed to ensure that all Canadians can receive relatively uniform levels of provincial service at tax rates not markedly different from the national average. Payments are determined by a sophisticated formula that compares a province’s share of the population with its share of tax “capacity”. Only three provinces, Ontario, Alberta, and British Columbia, do not receive equalization. Equalization currently costs the federal treasury \$2.4 billion, and is the single largest source of revenue for several of the recipient provinces.

The revenue stabilization program guarantees provinces against a fall in revenues due to economic turndowns. If a province’s total revenue declines, measured after adjustments to eliminate the effects of year to year changes in tax rates, a stabilization grant is payable to bring revenues up to 95% of the level of the preceding year. Reflecting the underlying strength of the Canadian economy, no payments have ever been made under this program.

Conditional Transfers

At the present time, the federal government has

major cost-sharing arrangements with the provinces in the areas of hospital insurance, medicare, social welfare, and post-secondary education. Generally, these arrangements were set up as “open-ended”, with the federal government undertaking to reimburse the provinces for a percentage, usually 50%, of total provincial expenditures on a specified range of services within each program. Cost-sharing has resulted in greater uniformity and higher levels of service throughout the country.

The shared cost programs have become the mainstay of the transfer system, with federal contributions amounting to almost \$5 billion in 1975-76. The breakdown in federal transfers was as follows: for hospital insurance, \$2.7 billion; for medicare, \$1 billion; for social welfare, \$800 million; and for post-secondary education, \$1.6 billion (a part of which is in the form of tax sharing).

The Revenue Guarantee

In 1972, a major change in the income tax structure in Canada substantially altered the underlying tax base and the elasticity of the tax system. Since this move affected the provinces, Ottawa provided a five year guarantee that if they paralleled the new federal income tax, provinces would receive no less revenue under the new system than they would have received had the old system continued. For the 1976 taxation year, Revenue Guarantee payments are estimated to be about \$660 million.

Current Negotiations

The provinces and the federal government are currently negotiating changes in various areas of their fiscal relationship.

Regarding equalization, it is expected that the formula will be refined in a number of ways. Present

indications are, however, that the level, growth, and distribution of the payments will be only marginally affected.

A second matter is the Revenue Guarantee. This program expires on December 31, 1976, and a large part of the current discussions focus on a possible extension or replacement for it. The federal government has indicated that it is willing to entertain a “partial” replacement in order to prevent too severe a drop in provincial revenues.

The most important negotiations, however, focus on possible new arrangements for financing hospital insurance, medicare, and post-secondary education. The federal intention is to reduce the growth of its contributions to the growth of the G.N.P., and to this end it has already imposed arbitrary ceilings on its contributions to two of the programs. (Ceilings cannot legally be imposed on hospital insurance until 1981). The provinces are seeking a larger escalator, and also increased flexibility to spend according to their own priorities. As yet, no agreement has been reached, but the ultimate result will almost certainly involve a reduction of federal transfers to the provinces, at least in the short run.

Provincial-Municipal Fiscal Relations

Exclusive jurisdiction for the creation and regulation of municipal government is assigned to the provinces by the BNA Act. The provinces may, in turn, delegate authority to bodies of their own creation and transfer responsibility for a broad range of local services to their local governments. Unlike ‘home rule’ legislation in several American states, municipalities exist only at the pleasure of their provincial legislatures and may be expanded,

altered, or disbanded by changes in provincial legislation. The provinces, however, retain ultimate responsibility for the financial viability of municipalities, and generally fulfill this obligation through direct controls and financial assistance.

To help municipalities avoid becoming over-extended, provinces generally exercise a substantial degree of direct control over local borrowing. Some provinces also provide loans for certain services which reduce the costs to local taxpayers due to use of the Province's more favourable credit rating.

Because of the regressive nature of the main source of local government revenue, property taxation, Canadian provinces have generally attempted to minimize use of this source, preferring to finance rapidly growing municipal expenditure responsibilities by direct provincial transfer payments and provincial loans. A return to Table I illustrates the degree of direct provincial support of local government. On average, 47% of local government revenues come via provincial transfers. Ontario's support of local government is slightly above the average, amounting in 1975 to 48% of total local sector revenues, including borrowing, up from 38% in 1970. This increasing emphasis on provincial assistance has led to a uniformly high level of services without undue reliance upon narrow municipal tax bases.

By financing municipalities and school boards directly, the provinces are, in effect, performing the role of financial intermediary, taxing or borrowing at the provincial level and flowing funds through to local governments. In taxation, the municipalities

An Overview of Ontario's Finances

benefit from a broader, more stable tax base and the desired degree of progressivity of the tax system is retained. In public borrowing, the taxpayers benefit from the lower interest rates associated with provincial, rather than municipal, borrowing.

The effect of Ontario's intermediary role has been to concentrate public sector debt at the Provincial level, leaving traditional Provincial debt ratios somewhat higher than in similar American states. This point is taken up again in a subsequent section.

The principal fiscal document in Ontario is the *Ontario Budget*, issued annually around the end of March. From time to time, when economic conditions warrant, Ontario also brings down supplementary 'mini-budgets.' Bound with the Budget are a number of Budget Papers which present policy statements on various aspects of the government's fiscal policy. In addition, the Province publishes policy-oriented staff papers in its *Ontario Tax Studies* series. As a component of its continuing monitoring of the budget plan, Ontario also publishes the *Ontario Finances*, a quarterly analysis of budget performance and a revised budget forecast.

Ontario's official financial reports are the annual *Public Accounts*, published in October, and their abbreviated pre-release, the *Financial Report*, available toward the end of summer.

Basis of Reporting of Government Finances

Ontario employs a 'cash flow' principle of accounting in which all revenues and expenditures flow through a single Consolidated Revenue Fund. For presentation purposes, revenues and expenditures are divided into two groups; budgetary and non-budgetary.

Non-budgetary transactions are comprised of loans to local governments and provincial agencies, repayments of loans, and transactions with provincially administered pension funds and deposit, trust, and reserve accounts. The distinction of this group is that they are reflected in the Province's Statement of Assets and Liabilities as changes in specific assets and liabilities. Budgetary transactions, in contrast, affect the Statement only in residual form in terms of the resulting budgetary

surplus or deficit which increases or decreases 'net debt', the difference between assets and liabilities. Since the distinction between budgetary and non-budgetary transactions is not of major significance for policy analysis, they are often combined.

Although similar in outward appearance, the budgetary and non-budgetary classifications bear no relationship to the revenue and capital accounts maintained by many government jurisdictions. The Province makes no distinction between capital and operating expenditures in its accounts, expensing 'capital' outlays in the year of acquisition. However, an estimate is made of the amount spent on physical asset acquisition. This statement is published in both the Budget and the Prospectus.

Ontario's accounting principles are discussed more fully in the accompanying Financial Report.

Both the Budget and the Public Accounts present extensive data on Ontario's finances. Although the same basic data is presented in both sets of accounts, there is an essential difference in the manner of presentation.

The Budget, as a planning and forecasting document, is concerned with past and future trends of revenues and expenditures associated with direct government operations. The Public Accounts, as Ontario's official document for reporting to the Legislature and its committees, are concerned with recording all flows through the Consolidated Revenue Fund.

Borrowing in the United States is generally done by Ontario on behalf of Hydro, with the proceeds advanced to Hydro in exchange for an identical set of its bonds. As a result, U.S. borrowings, repayments, and interest charges affect Ontario's

internal accounts even though they have nothing to do with direct government revenue and expenditure programs. These intermediary transactions distort the presentation of the Province's operational cash needs and related financing. Consequently, the Budget excludes all flows arising from U.S. borrowing on behalf of Hydro. The Public Accounts include these flows.

The accompanying Financial Report discusses Ontario's accounts on a Public Accounts basis. The discussion to follow, primarily concerned with trends in direct government programs and the current Budget forecast, is presented on a Budget basis.

Net Cash Requirements

Reflecting rapidly expanding expenditure responsibilities in conjunction with limited fiscal resources, and the widespread policy of financing physical asset acquisition out of current revenues, deficits are a common occurrence in Canadian provincial budgets. Ontario's cash requirements have averaged just above \$1 billion annually over the past five years.

Inflation and recession exert major influences on Ontario's Budget position. During periods of high inflation, expenditures, due to the large wage component of the Budget, tend to grow at a faster rate than the general inflation rate. On the other hand, due to indexation of the personal income tax, Ontario's largest revenue source, that portion of revenue growth attributable to inflation tends to grow at a much slower rate. Consequently, during periods of significant inflation such as North America has experienced during the 1970s, it is necessary either to increase taxes or to cancel government programs just to hold cash requirements at a constant level.

Table II

Ontario Net Cash Requirements

	1973-74	1974-75	1975-76	Budget* 1976-77
Cash Requirements	(\$ million)			
Budgetary Transactions				
Revenue	6844	8176	9010	10797
Expenditure	7223	8722	10490	11837
Deficit	379	546	1480	1040
Non-Budgetary Transactions				
Revenue	333	677	510	550
Expenditure	662	1108	829	744
Deficit	329	431	319	194
Net Cash Requirements	708	977	1799	1234
Financing				
Public Borrowing	(228)	(305)	743	(37)
Non-Public Borrowing	938	1156	1231	1265
Decrease in Liquid Reserves	(2)	126	(175)	6
Total Financing	708	977	1799	1234

***Ontario Finances**, June 30, 1976

In Canada, fiscal policy is actively practiced at the provincial level. Ontario has made two major fiscal policy initiatives in the 1970s, the latest during fiscal 1975-76. During that year, several substantial fiscal policy initiatives were taken to reduce the impact of the recession on the Ontario economy. The cost of these temporary incentives, about \$600 million, explains most of the increase in cash requirements during the year. Although fiscal policy has played a major role in reducing the intensity of the two recent recessions by strengthening the Province's

fiscal base, it has had a side effect on the Statement of Assets and Liabilities. Estimates place the cost of the two major contracyclical fiscal policy initiatives at almost \$1 billion.

In 1975, the Treasurer of Ontario announced his commitment to reduce Ontario's cash requirements to the level of borrowing available from non-public sources. Expiration of the temporary tax reductions, tax increases, and the imposition of stringent constraints on expenditure growth guarantees fulfillment of this commitment in the current fiscal year.

Revenues

Ontario's revenues are derived from taxes levied directly by the Province, federal transfer payments, interest on investments, health insurance premiums, government enterprise profits, and various fees and licences.

Ontario's four major tax sources are: personal income tax, corporate taxes, retail sales tax, and gasoline tax. In recent years, these taxes have made up about one-half of the Province's budgetary revenues.

The Ontario personal income tax is levied at a rate equal to 30.5% of federal basic income tax collected from Ontario residents. The rate is the second lowest among Canadian provinces. Since 1974, tax brackets and exemptions have been indexed against inflation by annual adjustments tied to the Consumer Price Index. Indexation, an independent federal government initiative, has substantially slowed the growth of provincial revenues from personal income tax.

A corporation income tax of 12% (9% for small business) is levied on corporation income deemed to have been earned in Ontario. Other

Table III

Ontario Government Revenues

	Revenue Level			Per Cent Distribution		
	1970-71	1975-76 (\$ million)	1976-77*	1970-71	1975-76 (per cent)	1976-77*
Personal Income Tax	992	1571	1930	19.5%	17.4%	17.9%
Retail Sales Tax	674	1325	1907	13.3	14.7	17.7
Corporation Taxes	414	1140	1128	8.1	12.7	10.4
Gasoline Tax	376	505	525	7.4	5.6	4.9
Miscellaneous Taxes	298	664	917	5.9	7.4	8.5
Health Insurance Premiums	619	573	790	12.2	6.4	7.3
Liquor Board Profits	193	333	399	3.8	3.7	3.7
Miscellaneous Other Revenue	297	578	628	5.8	6.4	5.8
Interest on Investments	249	391	432	4.9	4.3	4.0
Federal Government Payments	968	1930	2141	19.1	21.4	19.8
Hospital Insurance	364	846	988			
Canada Assistance Plan	176	419	448			
Medicare	175	288	346			
Post-Secondary Education	143	167	152			
Other	110	210	207			
Total Budgetary Revenue	5080	9010	10797	100.0%	100.0%	100.0%
Repayment of loans	93	203	202			
Payments into Special Accounts	122	307	348			
Total Revenues	5295	9520	11347			

*Ontario Finances, June 30.

provincial corporate tax rates range between 10% and 15%. Corporations may offset ten percentage points of provincial tax against their federal corporation income tax liability.

The 7% retail sales tax applies to about 90% of commodities. Rates among the nine provinces imposing this tax range between 5% and 10%. Food, books, children's clothing and other basic commodities are exempted, while alcohol, restaurant meals, and some other luxuries are taxed at 10%. To further reduce regressivity of the sales tax, the sales tax credit component of the Ontario Tax Credit Plan will return an estimated \$88 million to low income earners in the form of income tax rebates in 1976-77.

To provide fiscal stimulus, the 1975-76 Budget reduced the retail sales tax to 5% until December 31, 1975 and exempted machinery and equipment used in production or construction from sales tax until December 31, 1977. In July, 1975, new automobiles were exempted from all sales tax for the remainder of the year. The result of these actions was to reduce budgetary revenue growth over the year to 10.2%.

The 1976-77 Budget increased health insurance premiums (88% of which are paid by employers) and taxes on liquor, tobacco, and insurance premiums. The effect of these new tax measures, which will yield about \$330 million, and restoration of the retail sales tax to 7% will be to cause revenues to rise by almost 20% in the current fiscal year.

Expenditures

In recent years, the composition of Ontario government spending has altered considerably. To a large degree, shifting priorities can be traced to

changes in population concentration, composition, and growth and to gradual completion of the Province's social infrastructure development program.

The post-war baby boom swelled school populations in the 1960s, necessitating a major primary and secondary school construction program. By the late 1960s, as this group began to reach university age, a major expansion of Ontario's university system was undertaken, as well as development and construction of an extensive network of community and vocational colleges. As the group has matured and moved into the labour force, Ontario has been faced with the issues of urban concentration, preservation of the environment, and development of a strong economic infrastructure capable of supporting the rapid industrial expansion necessary to provide jobs for its expanding labour force.

Accordingly, Provincial priorities are shifting once again, this time toward the provision of adequate housing, enrichment of municipal services, development of efficient intra-and inter-urban public transit, land use planning, and environment control. Further, in recent years, Ontario has been directing an increasing share of its fiscal resources toward improving the well-being of the disadvantaged members of its society: the elderly, blind and disabled.

The Province's policy priorities, as demonstrated by its expenditures, are best illustrated by combining its budgetary and non-budgetary expenditures into a single group. This has been done in Table IV, which allocates all government spending, whether direct or in the form of transfer payments, loans, or

Table IV

Ontario Government Expenditures

	Expenditure Levels			Per Cent Distribution		
	1970-71	1975-76	1976-77*	1970-71	1975-76	1976-77*
		(\$ million)			(per cent)	
Health	\$1627	\$ 3020	\$ 3458	27.8%	26.7%	27.5%
Education	1977	2935	3248	33.7	25.9	25.8
Community and Social Services	317	881	953	5.4	7.8	7.6
Housing	115	446	438	2.0	3.9	3.5
Resource and Industrial Development	855	1776	1748	14.6	15.7	13.9
Justice	193	394	433	3.3	3.5	3.4
Other	467	1142	1404	8.0	10.1	11.2
Public Debt Interest	311	724	899	5.3	6.4	7.1
Total	\$5862	\$11318	\$12581	100.1	100.0	100.0

***Ontario Finances**, June 30.

advances, among the major policy field classifications.

The health field has grown over the years to become the largest single expenditure area. The major element of the Province's commitment is the Ontario Health Insurance Plan (OHIP), a comprehensive insurance plan available to all Ontario residents covering hospital, doctor, and other medical services. About 78% of expenditures on insured health services are covered by OHIP insurance premiums and federal transfers under shared cost agreements. Ontario's health insurance plan is the subject of Budget Paper B in the 1976 *Ontario Budget*.

Reflecting the gradual winding down of the Province's school, college, and university construction programs, education expenditures

have fallen from one-third to just over one-quarter of the Budget. The Ontario government pays just under 60% of the operating costs of schools and more than 80% of operating costs for colleges and universities. About 50% of Ontario's operating expenditures for post-secondary education are recovered from the federal government.

Ontario's social security program is discussed in the accompanying Financial Report. A more complete discussion of the Province's income security program (GAINS) and of the Ontario Tax Credit System is found in Budget Paper A of the 1974 *Ontario Budget*.

Having increased its share of Provincial expenditures from 2.0% to 3.5% over the past six years, Housing has emerged as one of Ontario's

major new policy priorities. Details of the housing program, and the remaining expenditure programs, may be found in the Financial Report.

Transfer Payments in the Ontario Budget

The combination of centralized financial control and decentralized responsibility in Ontario has given rise to a large proportion of transfer payments. Over 70% of Provincial expenditures are transfer payments for either operating or capital investment purposes. More than 90% of government expenditures in the fields of health and education take the form of transfer payments to doctors, hospitals, school boards, and universities.

In the current fiscal year, total financial support to local governments and their agencies is forecast to reach \$3466 million. Financial details of these transfers are found in Table C9 of the 1976 *Ontario Budget*. Further information and a discussion of Ontario's policies regarding provincial-local transfers are found in the budget document, 1976 *Ontario Assistance to Local Government*.

Physical Asset Acquisition

Although the Province does not accord special treatment to investment in physical assets, an estimate is made annually of the amount of direct expenditures and transfer payments associated with the acquisition of fixed assets.

As Table V illustrates, over the nine years for which fixed asset statistics are readily available, Ontario's physical asset acquisition has substantially exceeded its external financing. Over the period, more than one-third of fixed assets have been financed by internally generated funds. If the two years when the Province took aggressive

TABLE V

Investment in Physical Assets

Fiscal Year	Physical Asset Acquisition	Cash Requirements (\$ million)	New Physical Assets Financed Externally (per cent)
1968-69	\$ 1,028	\$ 464	45.1%
1969-70	1,014	248	24.5
1970-71	1,172	566	48.3
1971-72	1,316	1,018	77.4
1972-73	1,209	744	61.5
1973-74	1,193	708	59.3
1974-75	1,750	977	55.8
1975-76	1,665	1,799	108.0
1976-77	1,556	1,230	79.0
Average	\$11,903	\$7,754	65.1%

Source: Ontario Budgets 1969-1976

expansionary fiscal policy stances were eliminated (1971-2 and 1975-6), the internal financing ratio would rise to 45%.

Table V also illustrates the changing composition of government spending. As the Province's social infrastructure development program has approached maturity, capital construction expenditures have declined in relative terms, while program delivery costs have risen correspondingly.

Budget Performance

Fiscal Year 1975-76

Revenue deterioration due to an unexpectedly adverse federal budget caused the forecast of cash requirements to increase from \$1669 million to \$1769 million by July of 1975. In his Supplementary

Actions on July 7, the Treasurer of Ontario announced \$178 million in new initiatives to be financed by internal cost cutting and program substitution. In June, the Treasurer had initiated a fundamental reassessment of Ontario's expenditure programs by establishing the Special Program Review to "enquire into ways and means of restraining the costs of Government through examining issues such as the continuing usefulness of programs, alternative low cost means of accomplishing objectives...".

Stringent expenditure control limited further increases in the deficit to \$30 million in the final nine months of 1975-76; cash requirements for the year were held to \$1799 million.

Fiscal Year 1976-77

The 1976 *Ontario Budget* re-iterated the government's determination to prevent in-year deterioration of expenditure levels and announced a new budget control system which would impose a monthly 'allotment' system of monitoring expenditures and would require all capital expenditures to be 'pre-approved'.

A large proportion of Ontario's transfer payments are 'open-ended' and in the past have been beyond the Province's direct control. Earlier in-year assessment of these open-ended programs has been implemented to locate signs of expenditure deterioration, which will then be offset by constraints in other areas of expenditure.

The first quarter of fiscal 1976-77 was one of the best in recent years. Given first quarter results, cash requirements are now estimated at \$1234 million, an increase of \$4 million above the original budget plan.

The second quarter issue of Ontario Finances will be available by mid-October. However, preliminary results from the monthly monitoring system give strong indication that the deficit is still within \$10 million of the original \$1,230 million forecast.

The Outlook for 1977-78

Recently announced federal policy changes with respect to shared cost programs and revenue guarantee payments may have a significant impact on Ontario's revenues as they adjust to a new, reduced level of federal fiscal support. The 1977-78 revenue projection as at September 1, 1976, indicates a growth of budgetary revenues of 8% for the year. Total revenues are forecast to rise to \$12,219 million, an increase of 7.7% over 1976-77.

The Treasurer announced his intention to hold the line and not permit cash requirements to increase beyond the growth rate of the economy. At a forecast GPP growth rate of 10.9%, this puts maximum allowable cash requirements at \$1,368 million, close to the level of funds available from internal pension plans.

The revenue forecast and ceiling on cash requirements produce a spending target of 8.0% for 1977-78. Firm commitments have been made to increase local government transfer payments, one of the areas under the greatest pressure for program enrichment, by 10.7%, while the remainder of government spending is currently targeted at 7.1%. The Treasurer has retained the option of possible tax moves to reduce cash requirements.

The Structure of Ontario Public Sector Debt

Two features of Ontario's accounting and financing policies have a material affect on the Province's financial statements: treatment of physical assets, and the Province's intermediary role.

Ontario's rationale for the exclusion of physical assets from the Statement of Assets and Liabilities is presented in the Financial Report. The effect of expensing physical assets in the year of acquisition, a practice adopted by several government jurisdictions, is that these assets do not appear on the Statement of Assets and Liabilities.

Consequently, Ontario's Statement is not comparable to the balance sheets of other jurisdictions which continue to record physical assets.

In recognition of the departure of Ontario's financial statements from the traditional corporate balance sheet presentation, Ontario's 'balance sheet' is entitled 'Statement of Assets and Liabilities', which is, in reality, a Statement of 'Financial' Assets and Liabilities.

Most of Ontario's recorded assets arise from its policy of retaining a high degree of centralized financial control over the entire sphere of its constitutional jurisdiction. A major proportion of Ontario's financial assets arise from its financial intermediary role. The Province borrows in the United States and advances the proceeds to Hydro; it borrows from the federal government and its agencies and relends the proceeds to municipalities. Although there is no direct earmarking, it advances the proceeds from Canada Pension Plan and other borrowings to municipalities, school boards, and universities through its capital aid corporations. In each instance, the borrowing by the Province creates a

liability and the relending (advance) creates an asset on the Province's Statement of Assets and Liabilities.

The Statement of Assets and Liabilities is brought to a traditional balance by inclusion of the item 'Net Debt'. Although net debt reflects the interesting historical net result of cumulative Provincial budgetary deficits and surpluses since Confederation, it is by definition the difference between the Province's total liabilities and the financial assets reflected in the Statement.

In Canada, where substantial variance in accounting and financing practices make inter-governmental debt comparisons a complex and confusing exercise, 'Funded Debt' is a more productive statistic for comparative analysis than is 'Net Debt'. Accordingly, in the discussion of Ontario's debt structure which follows, emphasis will be placed on Ontario's Direct and Guaranteed Funded Debt.

Assets

Table VI presents, in highly abbreviated form, the asset side of the Statement of Assets and Liabilities. The Province's recorded assets fall into two general categories: liquid assets, and loans and advances to governments and agencies within the sphere of Provincial jurisdiction.

Liquid Reserves

The Province maintains large liquid reserves, primarily in the form of bank term deposits, to handle in-year fluctuations in the flow of revenues and expenditures and to provide a substantial contingency reserve as tangible support of its unconditional guarantee of the debt of Ontario Hydro and others.

TABLE VI

Summary of Assets as at March 31, 1976
(\$ millions)

Liquid Reserves

Cash and Temporary Investments	\$1,186	
Marketable Securities	308	
Bank Balance ('book' overdraft)	<u>(463)</u>	\$1,031

Loans, Advances, and Investments

Ontario Hydro	2,240	
Education Capital Aid Corporations	2,450	
Housing Corporations	846	
Water Treatment and Waste Control	666	
Loans to Municipalities	272	
Other Loans, Advances, and Investments	<u>1,111</u>	<u>7,585</u>
Total Assets		<u><u>\$8,616</u></u>

In its commitment to an active debt management program, Ontario maintains a large bond portfolio comprised principally of Ontario and Ontario Hydro securities. Bank book overdrafts average about \$200 million.

Loans, Advances, and Investments

In its intermediary role, the Province acts as a flow-through mechanism for two major types of transactions, with many of the cash flows, in effect, pausing at the Provincial level only long enough to be recorded on its Statement of Assets and Liabilities.

Proceeds of borrowing in the United States for Ontario Hydro (\$2.2 billion) are immediately

exchanged for an identical set of Hydro bonds. The federal government, either directly or through Central Mortgage and Housing Corporation, lends money to municipalities for special projects such as water works, sewage plants, and general capital projects. The Province formally borrows these funds and in turn lends them to local governments. Assets accumulated through flow-through financing arrangements account for about one-third of Ontario's 'Loans, Advances, and Investments'.

For many years Ontario has pursued the policy of purchasing directly authorized bonds of junior governments and other authorities within its public sector. Local school boards and universities, for example, were able to finance major expansions of their educational facilities during the past decade almost totally by 'non-public' loans provided by Ontario. In financing authorities within its jurisdiction by these 'private placements', Ontario has assured financing to those school boards and small municipalities who, in times of credit stringency, might be unable to find suitable accommodation in the public market. In so doing, the Province has held the public sector's cost of borrowing for these projects to the Province's public borrowing rate, a substantial saving over the municipal and school board borrowing rate. This form of direct lending activity accounts for approximately 50% of Ontario's 'Loans, Advances, and Investments'.

A detailed presentation and further information on the Province's assets is contained in the Financial Report.

Liabilities

Ontario's unfunded debt is dominated by receipts from its employees' pension plan, described in the Financial Report. An additional \$287 million arises from deposits at the Province of Ontario Savings Office, a system of savings offices which accept chequable savings deposits and advance the proceeds to the Treasurer of Ontario.

Advances Payable are funds advanced by the Ontario Municipal Employees Retirement Fund and Central Mortgage and Housing Corporation which are eventually debentured and become Funded Debt.

Funded Debt

Funded Debt is that group of liabilities which are secured by notes or debentures. It is divided into two classifications: debt issued to the general public (Publicly Held Debt) and debt issued to Provincially administered pension plans or the federal government (Non-Public Debt).

Over both of the past five and ten year periods, Funded Debt has grown at similar average annual rates of 18.4%. Although growth has remained fairly constant, there has been a marked shift in the composition of debt. Public debentures, which represented almost 80% of Funded Debt a decade ago, have fallen to 31.7%. On the other hand, Non-Public Debt, which is dominated by Canada Pension Plan borrowings, has grown from 21.3% to 65.6% of the total.

Ontario's publicly held debenture debt has expanded at a 13% average annual rate over the past five years, close to the 12.4% growth recorded in G.P.P. More than half of this growth rate, however, is attributable to borrowing in the United

TABLE VII

Summary of Liabilities—as at March 31, 1976 (\$ millions)

Unfunded Debt

Province of Ontario Savings Office	\$	287	
Pension Plans		951	
Other		248	\$1,486

Funded Debt

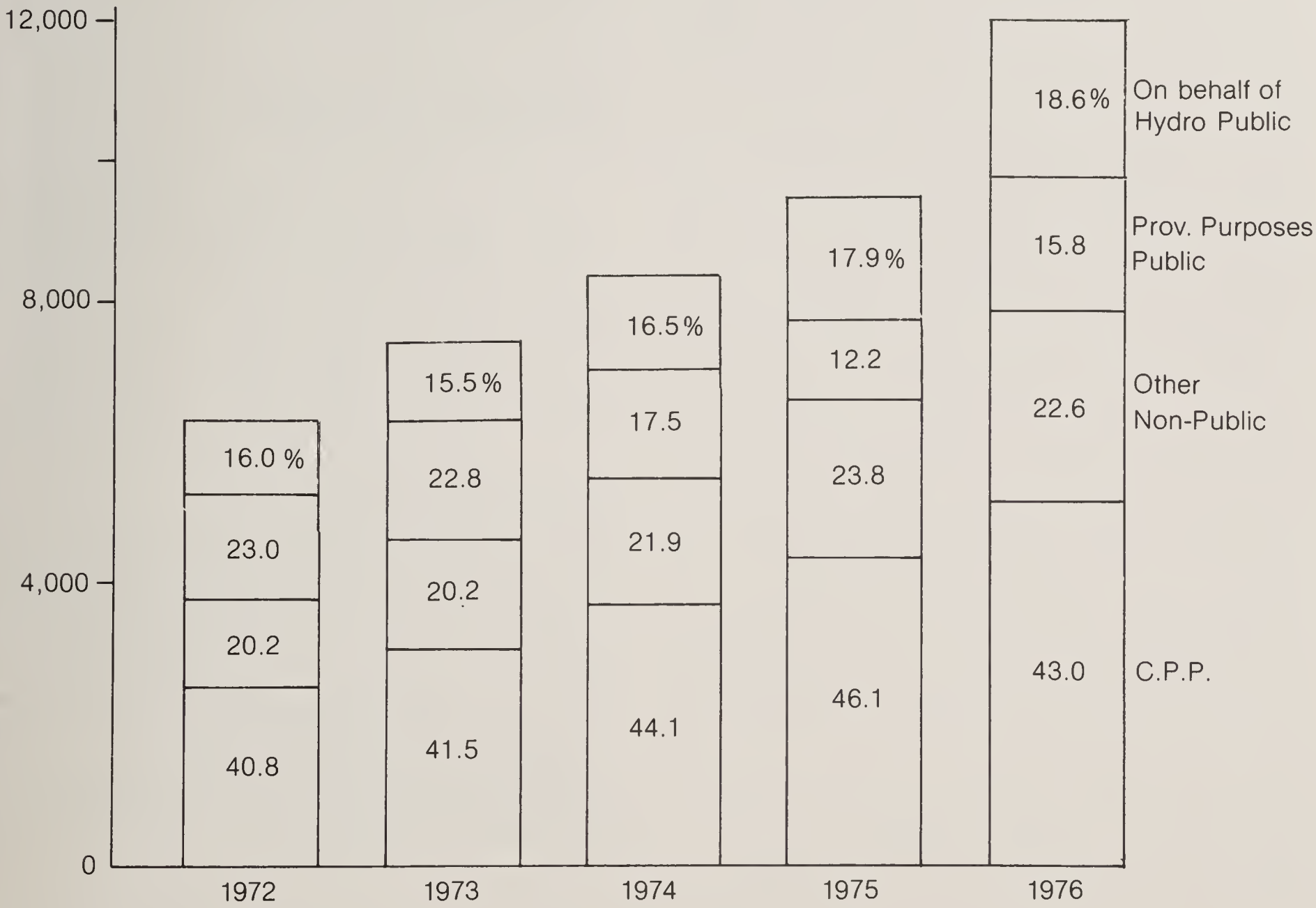
Publicly Held Debt			
Canada—Debentures	\$1,505		
—Treasury Bills	325	1,830	
U.S.—Debentures for Provincial Purposes on Behalf of Hydro	23		
	2,240	2,263	
Germany—Debentures		56	4,149
Non-Public Debt			
Canada Pension Plan		5,190	
Teachers' Superannua- tion Fund		1,675	
Ontario Municipal Employees Retire- ment Fund		809	
Other		235	7,909
			<u>\$13,544</u>

Contingent Liabilities

Funded Debt Guaranteed			
Ontario Hydro	\$5,022		
Other	18	\$5,040	
Unfunded Debt Guaranteed			107
TOTAL			<u>\$5,147</u>

**Ontario's Funded Debt
as at March 31.**

\$ millions



States on behalf of Ontario Hydro. Indeed, in the decade before 1975-76, Ontario's publicly held debentures issued for Provincial purposes had actually declined.

Table VIII presents a summary of the net sources of funded debt financing over the past five years. About one-fifth of net new borrowing is made up of public issues in the U.S. market on behalf of Ontario Hydro. Non-public borrowing dominates the remainder.

Non-public borrowing is made up of loans from three Provincially administered pension plans and relatively small special purpose loans from the federal government. New funded debt arising from the three pension plans in 1975-76 were: Canada Pension Plan, \$784 million; Teachers' Superannuation Fund, \$198 million; Ontario Municipal Employees' Retirement Fund, \$168 million.

Pension plan loans are straight term debentures, generally ranging in original maturity between 20 and 30 years. The yield on CPP borrowing is approximately the long term federal bond yield while Teachers' Superannuation and OMERS funds are borrowed at approximately the yield on Provincial direct or guaranteed domestic debenture issues.

After remaining level or declining for a decade, Ontario's Publicly Held Debt issued for Provincial purposes rose by \$743 million in 1975-76. This rise is accounted for by the cost of temporary initiatives associated with the Province's fiscal policy stance (\$590 million) and by the increase in Provincial liquid reserves (\$175 million).

Ontario has made very little use of foreign markets for its own purposes over the years, preferring to issue its limited new public debentures in the domestic market. Only 0.7% of its funded debt

issued for provincial purposes (19.3% when borrowing on behalf of Hydro is included) was issued in foreign markets. The average term to maturity of funded debt, 16.8 years, is relatively long. The average cost to the Province of debt outstanding at March 31, 1976, was 7.7%.

TABLE VIII

**Sources of Provincial Debt Financing
(net changes in Funded Debt)
(\$ million)**

Fiscal Year	Publicly Held	Non-Public	Total 'Own' Borrowing	Borrowing On Behalf of Hydro	Total Provincial Financing
1971-72	286	747	1033	49	1082
1972-73	252	777	1030	154	1184
1973-74	(228)	936	708	223	931
1974-75	(305)	1140	836	328	1164
1975-76	743	1231	1974	530	2504

Guaranteed Debt

As a general rule, Ontario prefers to finance its agencies and commissions by direct transfers in the form of loans and advances, rather than by having them borrow from the public with an unconditional guarantee. The notable exception is Ontario Hydro which, with the exception of public issues in the United States, borrows in its own name with an unconditional Provincial guarantee.

At March 31, 1976, total Guaranteed Debt stood at \$5,147 million, of which \$5,022 million was Hydro public debentures and notes.

Historical Trends in Relative Indebtedness

In the final analysis, the ability of a government to service its debt depends upon some measure of the income of the economy within its jurisdiction.

Further, in an era where the presence of inflation causes all nominal values to grow at far more rapid rates than their underlying real values, it becomes increasingly important to assess debt trends in relative terms.

The most popular deflators to reduce debt statistics to relative trends are measures of income (government revenue, Gross Provincial Product, and personal income), population, and inflation (GNE price deflator and Consumer Price Index). A number of these measures are presented in the context of a long historical series in the Appendix.

One interesting observation is that, although debt to income ratios have been increasing during the 1970s, they are relatively low when viewed in a long term context. The Funded Debt to Budgetary Revenue ratio, for example, has fallen from its historical high of 617% in 1941 to just 131.7% at the end of fiscal 1975-76. In other words, the number of years' revenue required to eliminate all funded debt (including borrowing for Hydro) has fallen from 6 years, 2 months to 1 year, 4 months. Similar, although less pronounced, trends are found when debt is deflated by either personal income or Gross Provincial Product.

Consolidation of Public Sector Debt

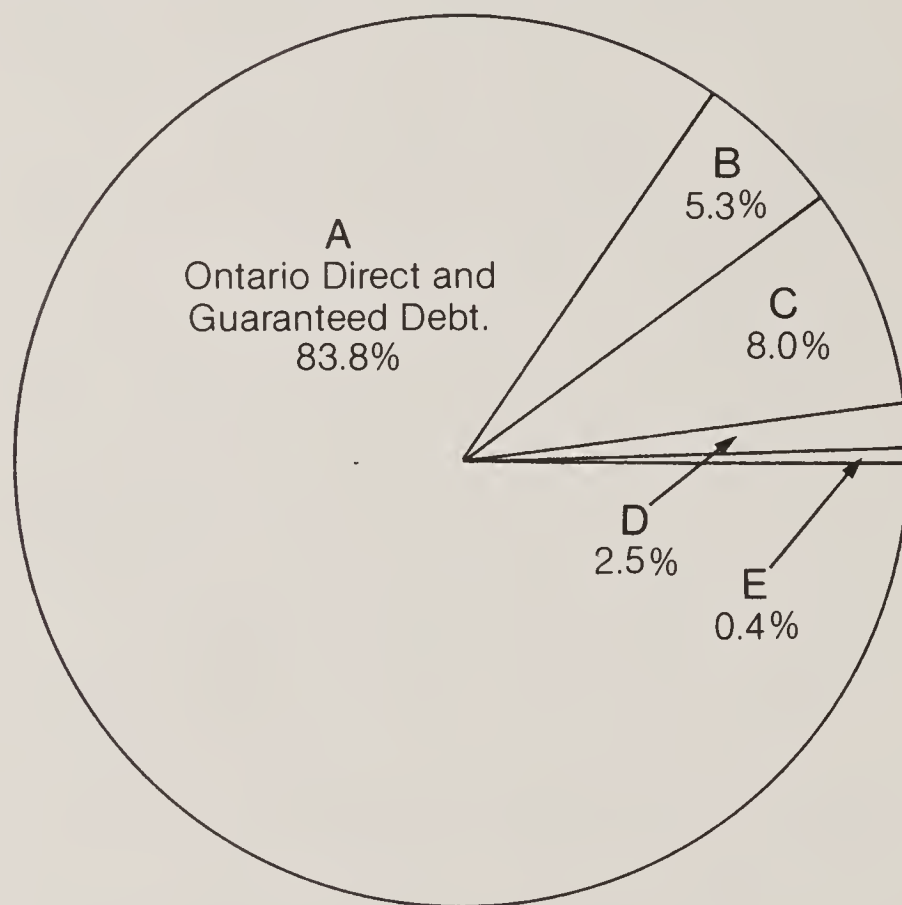
One of the principal reasons for the analysis of trends of indebtedness, in both absolute and relative terms, is to permit intergovernmental comparisons of the ability to service debt. Interprovincial or province-

state comparisons of balance sheets in isolation, however, are subject to a major shortcoming.

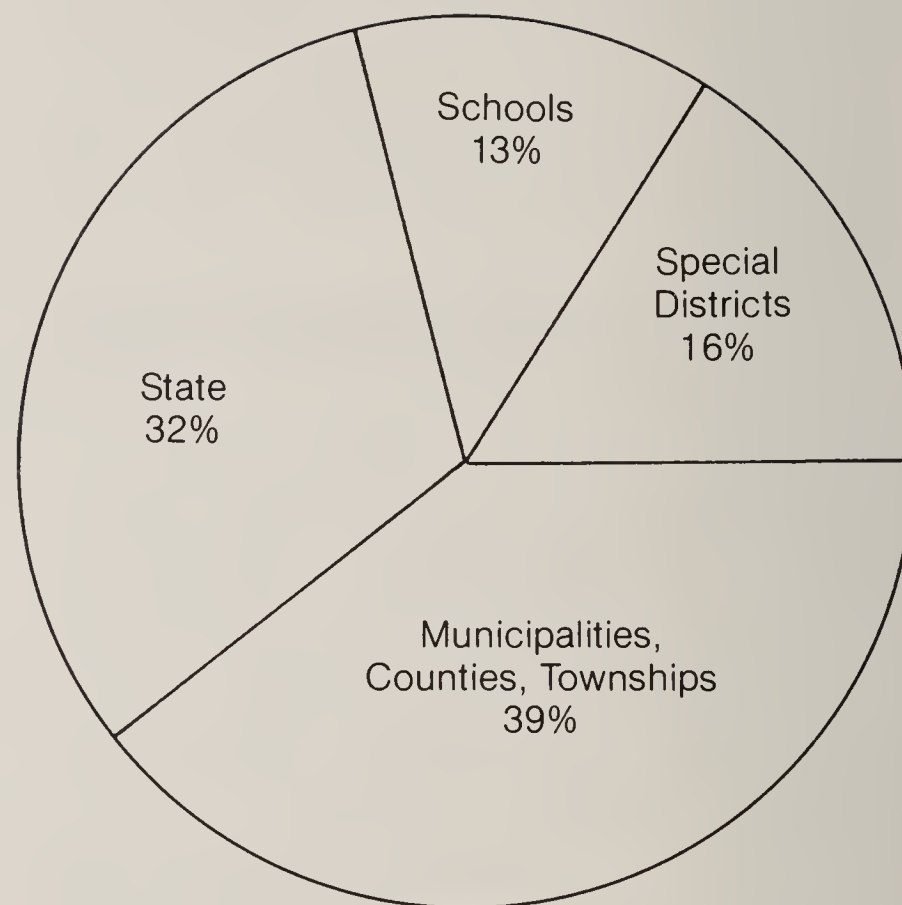
Analysis of the provincial sector in isolation ignores the existence of debt accumulated by several other tiers of government all of which lay claim, in the final analysis, to the same general income generating capacity of the provincial economy. Consequently, debt analysis must make allowance for the total amount of debt issued by all governments, boards, and agencies within the sphere of provincial jurisdiction. In addition, there are widely varying practices regarding transfers and loans to government agencies and junior levels of government among the Canadian provinces. Some provinces do virtually all public sector borrowing in their own names, while others traditionally display balanced budgets and perform public sector borrowing solely by guaranteed debt. Consequently, in addition to being analytically more appropriate, consolidation of the entire provincial domain for each province eliminates many of the problems associated with differences in accounting and financing practices.

Table IX presents a consolidation of the complete public sector in Ontario. For each sector, sinking funds and debt holdings by other levels of government are netted off gross funded debt. As the table illustrates, more than 80% of total public sector funded debt in Ontario appears in the Provincial financial statements in either direct or guaranteed form.

Concentration of Public Sector Debt



Ontario



Average for United States

A	Ontario Direct and Guaranteed	83.8%
B	Ontario Agencies	5.3
C	Municipalities	8.0
D	Schools	2.5
E	Hospitals	0.4
		100.0

Source: A.C.I.R. Understanding The Market For State and Local Debt and Table IX.

Table IX

**Consolidated Funded Debt of the Ontario Public Sector
(as at March 31, 1976)**

(\$ millions)

Province of Ontario			
Funded Debt (Direct) ⁽¹⁾	\$12,058		
Less: Ontario Debentures Held as Investments	<u>145</u>	\$11,913	(59.9%)
Funded Debt (Contingent) ⁽²⁾	5,040		
Less: Debentures Held as Investments	<u>290</u>	4,750	(23.9)
Provincial Government Boards Commissions and Corporations			
Funded Debt		1,060	(5.3)
Municipal Governments and Their Enterprises			
Funded Debt	3,110		
Less: Sinking Fund	651		
Debt Issued to Provincial Agencies	<u>865</u>	1,594	(8.0)
School Boards			
Funded Debt	1,712		
Less: Sinking Fund	2		
Debt Issued to Provincial Agencies and Municipalities	<u>1,214</u>	<u>496⁽³⁾</u>	<u>(2.5)</u>
Hospitals and Associated Operations			
Funded Debt	291		
Less: Debt Issued to the Province	<u>220</u>	<u>71⁽³⁾</u>	<u>(0.4)</u>
Funded Debt of the Ontario Public Sector		\$19,844	(100%)

(1) \$2,240 million on behalf of Ontario Hydro.

(2) \$5,022 million by Ontario Hydro.

(3) December 31, 1975 Preliminary.

Source: Ontario Ministry of Treasury, Economics and Intergovernmental Affairs.

Statistical Appendix

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As indicated by its title, this publication is designed to provide only a brief introduction to Ontario and its finances.

The Finance Management Branch would be pleased to provide additional information on Ontario, its finances, and on the Canadian economy in general. The Branch maintains a research staff headed by Mr. R. W. (Bill) Milne and Dr. R. C. (Bob) Kamp, who can be reached at:

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Toronto, Ontario, Canada.
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The research group will undertake to secure copies of Budgets, Public Accounts, Ontario Tax Studies, etc. for interested parties. Ontario government publications are also available from the Ontario Government Bookstore, 880 Bay Street, Toronto, Canada. M7A 1N8.

Per Cent Distribution of Ontario Funded Debt Outstanding

Public Debentures

Year	Canada	Germany	U.S. (Prov.)	U.S. (Hydro)	Sub Total	Treasury Bills
1964-65	61.6%	— %	3.5%	17.3%	82.4%	— %
1965-66	58.0	—	3.1	17.6	78.7	—
1966-67	47.3	—	2.5	16.1	65.9	—
1967-68	38.4	—	2.2	16.8	57.4	—
1968-69	30.2	2.6	1.6	17.5	52.0	—
1969-70	22.9	2.3	1.3	19.4	45.9	—
1970-71	19.2	2.0	1.2	18.4	40.7	—
1971-72	17.4	1.7	1.0	16.0	36.0	3.0
1972-73	16.7	1.8	.8	15.5	34.8	3.5
1973-74	14.7	1.1	.6	16.5	32.9	1.1
1974-75	11.3	.6	.2	17.9	30.1	—
1975-76	12.5	.5	.2	18.6	31.7	2.7

Non-Public Bonds

Year	C.P.P.	Teachers	OMERS	Other	Sub Total	Total Funded Debt
1964-65	— %	16.0%	.8%	.9%	17.6%	100.0%
1965-66	.9	16.9	1.3	2.2	21.3	100.0
1966-67	13.4	15.9	1.9	2.9	34.1	100.0
1967-68	22.5	14.6	2.3	3.3	42.6	100.0
1968-69	28.8	13.8	2.7	2.7	48.0	100.0
1969-70	34.8	13.7	3.4	2.2	54.1	100.0
1970-71	39.7	13.6	4.1	1.9	59.3	100.0
1971-72	40.8	14.0	4.6	1.6	60.9	100.0
1972-73	41.5	13.4	5.1	1.7	61.7	100.0
1973-74	44.1	14.2	6.0	1.7	66.0	100.0
1974-75	46.1	15.5	6.7	1.6	69.9	100.0
1975-76	43.0	13.9	6.7	1.9	65.6	100.0

Ontario Net Cash Requirements*
(\$ millions)

	1972-73	1973-74	1974-75	1975-76	Estimated** 1976-77
Budgetary Transactions					
Gross Revenue	\$ 6046	\$ 6844	\$ 8176	\$ 9010	\$10797
Annual % Change	13.2%	19.5%	10.2%	19.8%	
Gross Expenditures	6412	7223	8722	10490	11837
Annual % Change	12.7%	20.8%	20.3%	12.8%	
Budgetary Deficit	(366)	(379)	(546)	(1480)	(1040)
Non-Budgetary Transactions					
Receipts and Credits	248	333	677	510	550
Annual % Change	34.3%	103.3%	-24.7%	7.8%	
Disbursements and Charges	626	662	1108	829	744
Annual % Change	5.8%	67.4%	-25.2%	-10.3%	
Non-Budgetary Deficit	(378)	(329)	(431)	(319)	(194)
Net Cash Requirements	\$ 744	\$ 708	\$ 977	\$ 1799	\$ 1234

*Net cash requirements are as stated in the Ontario Budget. See 'An Overview of Ontario Finances'.

** Ontario Finances, June 30, 1976.

Ontario Direct and Guaranteed Debt Outstanding
(\$ millions)

	Direct Funded Debt					Guaranteed Debt			Total	
	Canada Public Bonds	Foreign Public Bonds	Treasury Bills	Total Publicly Held Debt	Non- Public Debt	Total Direct Debt	Hydro	Other	Total	Direct and Guaranteed Debt
1964-65	1230	416	—	1646	352	1998	1729	98	1827	3826
1965-66	1290	462	—	1752	474	2226	1730	86	1816	4042
1966-67	1240	488	—	1728	895	2623	1883	108	1991	4614
1967-68	1244	613	—	1857	1380	3237	1837	110	1947	5184
1968-69	1197	863	—	2061	1901	3961	2039	108	2147	6109
1969-70	1045	1047	—	2093	2468	4560	2117	79	2196	6756
1970-71	996	1120	—	2116	3077	5193	2350	84	2434	7627
1971-72	1092	1170	190	2451	3824	6275	2700	93	2793	9069
1972-73	1246	1352	260	2857	4602	7459	2951	119	3070	10529
1973-74	1234	1529	90	2853	5537	8390	3250	131	3382	11772
1974-75	1082	1795	—	2876	6678	9554	3779	154	3933	13487
1975-76	1505	2319	325	4149	7909	12058	5022	125	5146	17204

Ontario Public Bond Issues since 1968 (Excluding Hydro)*
(\$ millions)

Calendar Year	By Original Term to Maturity**				Total	By Country		
	1-5 Years	6-10 Years	11-19 Years	20-30 Years		Canada	Germany	U.S.
1968	40	—	—	50	90	50	40	—
1969	—	64	—	—	64	—	64	—
1970	—	—	—	—	—	—	—	—
1971	—	25	—	75	100	100	—	—
1972	—	31	—	200	231	200	31	—
1973	—	—	—	—	—	—	—	—
1974	—	—	—	—	—	—	—	—
1975	—	—	150	150	300	300	—	—
1976	—	—	—	150	150	150	—	—
Total	40	120	150	625	935	800	135	—

*Total Provincial direct (U.S.) and guaranteed borrowing on behalf of Ontario Hydro is presented in the following table.

**Serial issues are classified by their earliest maturity.
See Debt Maturity Schedule for exact maturities.

Ontario Hydro Public Bond Issues since 1968
(\$ millions)

Calendar Year	By Original Term to Maturity****				Total	By Country				
	1-5 Years	6-10 Years	11-19 Years	20-30 Years		Canada	Germany	U.S.*	Euro	Other**
1968	—	—	—	240	240	165	—	75	—	—
1969	40	55	—	305	400	185	40	175	—	—
1970	—	75	—	410	485	310	—	175	—	—
1971	—	65	—	435	500	335	30	100	35	—
1972	—	61	26	470	557	300	31	200	—	26
1973	55	80	—	400	535	375	35	125	—	—
1974	25	90	—	585	700	400	—	300	—	—
1975	135	525	31	875	1566	450	—	775	77	264
1976***	650	251	—	600	1501	600	—	650 #	251	—
Total	905	1202	57	4320	6484	3120	136	2575	363	290

*The Province borrows in its own name in the U.S. on behalf of Ontario Hydro.

**These are Swiss Franc issues and Canadian dollar private placements outside North America.

***Ontario Hydro's 1976 borrowing program is now complete.

****Serial Issues are classified by their earliest maturity.

See Debt Maturity Schedule for exact maturities.

Private Placement issued in Ontario Hydro's name.

Sources of Provincial Debt Financing (Net)*
(\$ million)

	Non-Public					Public	Total 'Own' Borrowing	On Behalf of Hydro	Total Provincial Financing
	C.P.P.	Teachers	OMERS	Other	Total				
1964-65	—	36	11	6	53	63	115	—2	114
1965-66	20	57	14	31	122	60	182	46	228
1966-67	333	41	20	27	421	— 55	366	32	397
1967-68	376	55	25	30	485	9	494	120	614
1968-69	412	73	33	3	521	52	573	151	724
1969-70	446	80	47	—6	567	—157	410	189	599
1970-71	476	80	58	—4	610	— 50	560	73	633
1971-72	498	172	75	2	747	286	1033	49	1082
1972-73	536	120	91	30	777	252	1030	154	1184
1973-74	607	195	125	9	936	— 228	708	223	931
1974-75	702	286	138	14	1140	—305	836	328	1164
1975-76	784	198	168	81	1231	743	1974	530	2504

*This table presents annual changes in funded debt outstanding. 'Proceeds of loans' as reported in the Financial Report and Budget include some unfunded liabilities and, consequently, will generally be slightly higher.

Debt Maturity Schedule (1)
(\$ thousands)

		ONTARIO at December 31, 1975		HYDRO at Dec. 31/75	
Calendar Year (2)	Can. Dollars	Payable in (3) U.S. Dollars	Payable in (4) Deutsche M.	Total in Can. Dollars	Total in (5) Can. Dollars
1976	\$ 39,714	\$ —	\$ 4,009	\$ 43,722	\$ 172,157
1977	68,200	—	4,009	72,209	136,310
1978	37,883	46,097	4,009	87,989	182,228
1979	107,157	—	4,009	111,166	148,146
1980	44,187	28,861	7,201	80,249	227,703
1976-80	297,141	74,958	23,236	395,335	866,544
1981-85	540,275	352,344	31,642	924,261	906,614
1986-90	2,433,136	44,896	5,576	2,483,607	337,656
1991-95	4,203,920	—	—	4,203,920	416,497
1996-2000	1,336,555	550,946	—	1,887,501	1,398,812
2001-2005	177,396	1,239,870	—	1,417,266	—
2006-2010	15,530	—	—	15,530	—
2011-2015	10,137	—	—	10,137	—
	\$9,014,089	\$2,263,014	\$60,454	\$11,337,557	\$3,926,123

(1) Excludes Notes Payable and Treasury Bills.

(2) The Province's debt maturity schedule on a fiscal year basis is shown in the Prospectus.

(3) All Provincial U.S. dollar debt, with the exception of \$23 million maturing in 1983, is issued on behalf of Ontario Hydro. Its maturity schedule is listed under Ontario and not under Hydro.

(4) Converted at exchange rates at time of issue.

(5) Canadian dollar equivalent of bonds, converted at exchange rates at time of issue, distributed as follows:

Currency	Canadian Dollars
Canadian Dollars	\$3,565,230
Euro Dollars	111,374
Deutsche Marks	134,858
Swiss Francs	114,661
	<u>\$3,926,123</u>

Interest on the Outstanding Ontario Public Debt

Year	Interest Payments (\$ millions)			Interest Payments (% Revenue)		
	Provincial Purposes	On Behalf of Hydro (U.S.)	Total	Provincial Purposes	On Behalf of Hydro (U.S.)	Total
1965-66	90.8	13.6	104.4	4.6%	.7%	5.3%
1966-67	105.8	15.7	121.5	4.4	.6	5.0
1967-68	132.9	18.4	151.3	4.6	.6	5.2
1968-69	168.6	27.9	196.5	4.8	.8	5.6
1969-70	209.0	40.1	249.1	4.8	.9	5.7
1970-71	253.9	56.6	310.6	5.0	1.1	6.1
1971-72	317.7	62.9	380.6	5.9	1.2	7.0
1972-73	408.2	68.7	476.9	6.7	1.1	7.8
1973-74	524.6	78.8	603.4	7.6	1.1	8.7
1974-75	590.6	97.6	688.2	7.1	1.2	8.3
1975-76	724.3	142.4	866.7	7.9	1.6	9.5

Relative Trends in Ontario Indebtedness

Fiscal Year Ending March 31	Funded Debt Per Capita	Funded Debt Constant Dollars (\$ millions)	Funded Debt % Personal Income	Funded Debt % Revenue	Total Liabilities % Personal Income	Direct and Guaranteed Debt % Personal Income
1936	\$ 180.9	\$2,164.0	45.9%	613.7%	48.5%	53.9%
1937	169.1	1,975.4	41.2	452.0	44.1	50.5
1938	173.0	1,987.8	37.8	484.5	40.5	45.9
1939	180.3	2,092.3	39.4	576.4	42.2	47.9
1940	185.6	2,197.5	39.2	616.9	41.6	46.8
1941	182.6	2,085.9	33.6	526.9	35.7	40.0
1942	176.2	1,909.0	26.9	501.7	28.6	31.9
1943	170.6	1,788.6	22.1	506.9	23.5	26.2
1944	159.8	1,637.4	18.8	447.3	20.2	22.5
1945	153.1	1,536.6	17.1	432.2	18.5	20.7
1946	143.0	1,429.6	15.7	376.9	17.2	18.9
1947	142.0	1,407.6	15.5	342.9	17.4	18.6
1948	135.4	1,262.1	13.6	255.4	15.4	17.9
1949	133.8	1,137.1	12.0	232.9	13.7	17.5
1950	146.9	1,223.4	12.6	239.1	14.2	20.5
1951	148.2	1,238.2	12.0	211.3	13.6	21.1
1952	175.2	1,366.2	12.8	231.5	14.1	21.9
1953	179.1	1,379.9	12.2	226.0	13.5	22.6
1954	196.5	1,570.2	13.0	243.2	14.3	23.6
1955	184.2	1,492.8	12.2	218.2	13.7	24.4
1956	187.6	1,551.7	11.8	215.3	13.4	23.9

Fiscal Year Ending March 31	Funded Debt Per Capita	Funded Debt Constant Dollars (\$ millions)	Funded Debt % Personal Income	Funded Debt % Revenue	Total Liabilities % Personal Income	Direct and Guaranteed Debt % Personal Income
1957	210.2	1,740.3	12.6	222.1	14.1	25.0
1958	214.2	1,802.6	12.1	188.5	13.7	25.9
1959	257.6	2,191.7	14.2	210.8	15.8	27.8
1960	261.7	2,235.8	14.0	164.8	15.6	27.6
1961	262.6	2,262.9	13.7	161.1	15.4	27.4
1962	278.1	2,431.0	14.4	155.6	16.3	28.0
1963	281.0	2,471.1	13.8	126.3	15.8	26.8
1964	285.4	2,519.1	13.5	125.9	15.5	26.3
1965	295.7	2,608.5	13.3	119.8	15.4	25.5
1966	321.3	2,813.7	13.5	113.6	15.5	24.4
1967	369.6	3,175.5	14.1	108.0	16.2	24.7
1968	447.3	3,768.6	15.8	112.2	17.9	25.2
1969	538.1	4,466.0	17.3	112.2	19.5	26.7
1970	605.8	4,924.9	17.8	103.6	19.8	26.4
1971	675.9	5,359.4	18.6	102.2	20.7	27.3
1972	804.5	6,275.5	20.3	116.1	22.6	29.4
1973	941.9	7,103.9	21.5	122.0	24.1	30.4
1974	1,040.1	7,315.1	21.5	121.2	24.1	30.2
1975	1,165.1	7,287.5	21.2	115.5	24.1	30.0
1976	1,450.1	8,304.3	23.6	131.7	26.5	33.6

Revenue Equalization Formula

The revenue equalization formula is applied to each of the 23 major provincial revenue sources individually for each province. Individual entitlements for a given year, which may be positive or negative, are then summed across all sources for each province to derive total equalization due to that province.

To calculate equalization, a tax base is chosen which is most representative of actual provincial bases, e.g. the volume of gasoline sold for the gasoline tax. For each province, total revenues from the tax are recorded, as is the size of the tax base in the province for the particular year, e.g. 1 million gallons of gas. Total revenues are then divided by the size of the national base to derive a 'national average tax rate'.

To determine a province's equalization payment for a given revenue source, two revenue figures are calculated: the national average tax rate applied to the province's tax base, and the same rate applied to the national tax base. The difference between these two yields expressed in per capita terms is multiplied by the province's population to get the equalization payment for that source.

In symbols,

$$\begin{aligned}
 \text{Entitlement} &= \left[\frac{t \times \text{NB}}{\text{NP}} - \frac{t \times \text{PB}}{\text{PP}} \right] \times \text{PP} \\
 &= \text{PP} \left[\frac{\text{TR}/\text{NB} \times \text{NB}}{\text{NP}} - \frac{\text{TR}/\text{NB} \times \text{PB}}{\text{PP}} \right] \\
 &= \text{TR} \left[\frac{\text{PP}}{\text{NP}} - \frac{1/\text{NB} \times \text{PB} \times \text{PP}}{\text{PP}} \right] \\
 &= \text{TR} \left[\frac{\text{PP}}{\text{NP}} - \frac{\text{PB}}{\text{NB}} \right]
 \end{aligned}$$

Where:

NB = national base

NP = national population

PB = provincial base

PP = provincial population

TR = total national revenue

and $t = \text{TR}/\text{NB}$

$$\text{Entitlement} = \text{Total revenue from the revenue source} \left[\begin{array}{cc} \text{Province's share of total population} & - & \text{Province's share of total tax base} \end{array} \right]$$

If total revenues from the gasoline tax in 1975 were \$1 million and a province had 40% of the population and 30% of the tax base, equalization payments due it with respect to gasoline tax revenues would be:

$$\begin{aligned}
 \text{Entitlement} &= \$1,000,000 (.4 - .3) \\
 &= \$100,000.
 \end{aligned}$$

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